New Flyer Industries Inc. Is Down 6.6% From May High: Time to Buy?

Description

In the last two quarters, **New Flyer Industries Inc.** (TSX:NFI) reported earnings that far surpassed consensus expectations, which is always a good thing. So, why has the stock fallen 6.6% since highs reached at the end of May?

Let's look at the bigger picture for perspective. The stock has a one-year return of 31.2% and a three-year return of a whopping 311%. This reflects the growth rate of the company and the fact that it has worked diligently over the last few years to find itself today as the market leader in heavy-duty buses with a market share of 46% and the leading market share of 39% in motor coaches.

Here's why I would buy on any weakness.

The company continues to post strong results. In the latest quarter, the first quarter of 2017, the company reported a 3.4% increase in revenue as new transit bus and coach deliveries increased 7.6%, offset by weakness in the pre-owned coach segment.

This was accompanied by a 52.5% increase in earnings per share (EPS) largely due to cost synergies from the MCI acquisition and cost savings from the company's initiatives which continue to take hold.

Since 2012, the company has achieved a 27% cumulative annual growth rate in revenue as it has benefited from acquisitions in the space as well as the overall backdrop of increased spending to rejuvenate aging bus/coach fleets and to get more environmentally friendly transportation vehicles on the road.

The company's debt load has been on the decline recently with a debt-to-total-capitalization ratio of 43.75% as of the end of the first quarter of 2017 compared to 47.7% in the fourth quarter of 2016. This has been helped by the company's strong cash flow generation, and this trend is a definite positive for the company and its shares.

Now let's take a look at valuation. The stock currently trades at a price-to-earnings ratio of 19.2 times with an EPS growth rate of almost 100% in 2016. Going forward, that growth rate is expected to slow to 8.1% in 2017 and 5% in 2018 based on consensus analyst expectations. The stock trades at 21.9

times 2017 expected EPS and 20.9 times 2018 expected EPS.

The valuation is not unreasonable, and although the growth rate at New Flyer will slow from very high levels, it is off a higher base, so it does not concern me too much.

As a result of management's positive outlook on the business, the dividend was increased by 36.8%, and the shares now have a 2.47% dividend yield.

The company still faces tremendous opportunity ahead of it. I think, in the short term, this breather was not completely unexpected, and I would think of any short-term weakness as a buying opportunity.

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